

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2252 - SB 2347

February 24, 2016

SUMMARY OF BILL: Establishes that the premium tax reduction of, or credit upon, the gross premiums tax for investments in Tennessee securities, applies to any affiliate or affiliates of a company that is the direct underwriter of the policies. This act shall take effect upon becoming law and shall apply to reduction determinations for calendar years 2015 and thereafter.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$49,945,900/FY17-18 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed tax credits, additional jobs created as a result of such investments, and additional commercial activity in the state as a result of qualified companies making such capital investments. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- According to the Department of Commerce and Insurance (DCI), this legislation significantly expands the ability for insurance companies to obtain a credit on premium taxes without necessarily requiring any significant investment in Tennessee securities by affiliated companies that bear the risk of loss.
- This expansion of credit availability will reduce premium tax revenue currently collected by the DCI for property and casualty insurance, thereby reducing tax collections allocated to the General Fund.
- There are 43 companies currently taking the investment tax credit, resulting in a total annual tax credit of \$9,763,398.
- According to the DCI, this legislation will open up this credit to an additional 987 affiliates doing business in Tennessee with potential qualifying tax credits of \$199,783,413 per year.
- Assuming a minimum of 25 percent of the estimated qualifying tax credits would be taken annually, the recurring decrease in premium tax revenue to the General Fund is reasonably estimated to exceed \$49,945,853 (\$199,783,413 x 0.25).

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- This legislation is effective upon becoming law and applies to reduction determinations for calendar years 2015 and thereafter; however, the companies expected to take this credit are assumed to not currently be capable of doing so as a transfer of risk will need to occur.
- The Department of Commerce and Insurance indicates that companies will be able to fully transfer the risk during FY16-17 and will be able to claim the credit during FY17-18. As a result, FY17-18 is assumed to be the first-year impact.
- Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of such investments, and additional commercial activity in the state as a result of qualified companies making such capital investments. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE:

Decrease Business Expenses - \$49,945,900/FY17-18 and Subsequent Years

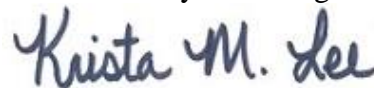
Other Commerce Impact – This bill could result in additional economic activity and job creation in Tennessee; however, the extent and timing of any such impacts cannot be determined with reasonable certainty.

Assumptions:

- Any credits received by insurance companies in this state as a result of this bill represent a decrease in business expenses to such companies.
- A recurring decrease in business expenses to insurers in the state of \$49,945,853.
- This bill could result in additional economic activity and additional jobs in Tennessee; however, any such impacts cannot be reasonably determined because such impacts are dependent upon multiple unknown factors.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/jdb